

CITY AUDITOR'S OFFICE



AUDIT OF BUILDING AND SAFETY PERMIT DIVISION

Report No. CAO 0753-0708-01

AUGUST 10, 2007

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**AUDIT OF
BUILDING AND SAFETY
PERMIT DIVISION
CAO 0753-0708-01**

BACKGROUND

The Building and Safety Department (Building and Safety) is responsible for ensuring that construction that occurs within the boundaries of the City of Las Vegas (City) conforms to established building codes. Building structures, building service equipment, and onsite improvements regulated by the City Administrative Code cannot be constructed, enlarged, altered, repaired, moved, removed, converted, or demolished without obtaining the appropriate permits.

Building permit fees are based upon construction valuation. During the audit period, the cost for a building permit was \$561 for the first \$100,000 of valuation, plus \$3.10 for each additional thousand dollars of valuation. Depending on the type of construction, other fees may also apply (e.g. electrical, mechanical, and plumbing permits).

Building and Safety uses two integrated data management software systems to process fees and monitor construction activity: Legacy and Hansen. Building and Safety is currently migrating activity from Legacy to Hansen. In July 2004, Hansen became operational for over-the-counter permits, block walls, pools, spas, and patio covers. Effective October 2006, Building and Safety began processing new residential construction activity in Hansen. New commercial construction activity is scheduled to move to Hansen in June 2007.

OBJECTIVES

The audit objectives were to ensure that:

- Management controls for building permit fees are adequate to provide assurance that transactions are fairly recorded and cash receipts are properly safeguarded.
- Statistical reports accurately reflect business activity.

SCOPE AND METHODOLOGY

The scope of the audit was limited to auditing building permit transactions initiated during fiscal year 2005/2006 (fiscal year). Judgmental samples were selected for test of controls. The last day of fieldwork was April 5, 2007.

The scope of our work on internal control was limited to the controls within the context of the audit objectives and the scope of the audit.

Our audit methodology included:

- Research of relative guidelines
- Interviews of personnel
- Observations of work processes
- Analysis of available data

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

Except as noted in the following findings and recommendations, the management controls for building permit fees are adequate to provide assurance that transactions are fairly recorded and cash receipts are properly safeguarded and statistical reports accurately reflect business activity.

Findings and recommendations summarized in this section are identified issues management should address relating to the Building and Safety Permit Division. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. Legacy System Control Deficiencies

Criteria

Integrated data management software systems should have the functionality to support effective monitoring and control operations.

Condition

Discussions with Building and Safety personnel and detailed testing showed that there are various internal control deficiencies with the Legacy system:

- Errors may occur when Building and Safety personnel manually calculate valuation amounts. The cost of building permits are based upon the higher of declared or calculated valuation.
- Management oversight is not required when cashiers void permit receipts.
- Permit fees may not be collected since Building and Safety personnel manually add expired permit fees.
- The only notation within the system for permit refunds is a comment stating fees were refunded.
- Building and Safety personnel have limited overall monitoring capability due to Legacy query limitations.

We acknowledge that Building and Safety is aware of these deficiencies, is utilizing compensating controls where possible that are not limited by diminished monitoring capabilities, and is addressing the above issues in Hansen.

Cause

Legacy is an older system that has limited functionality.

Effect

Until all permits are processed in Hansen, the potential exists that appropriate fees may not be collected.

Recommendation

1. Building and Safety management should continue with their monitoring efforts until the Legacy System has been retired.

2. Hansen Fee Collections

Criteria

Fees should be collected in accordance with the City Administrative Code.

***Section 304.2 Permit Fees.** The fee for each permit shall be as provided in set forth in Table Nos. 3-A through 3-C, as adopted in connection with this Supplemental Document and amended by the City Council from time to time.*

The valuation to be used by the Building Official shall be the greater of the declared valuation or the valuations as calculated from the Chart of Minimum Valuations Per Square Foot, which is attached to Table 3-A.

Condition

Hansen data queries of fiscal year permit transactions and detailed testing of 52 judgmentally selected permit applications were completed and analyzed. The analysis showed that fees were not always collected in accordance with the City Administrative Code:

- 3 permits: the incorrect amount was paid for the building permit fee.
- 3 permits: the electrical inspections were completed and finalized without the customer paying for an electrical permit. These inspections were scheduled through the Interactive Voice Response (IVR) system.

Cause

Hansen is not yet fully operational. System issues are still being identified and resolved.

Effect

Correct permit fees are not always charged or collected.

Recommendation

1. Building and Safety management should develop controls in Hansen to address the fee collection deficiencies and instruct staff of established procedures to ensure that correct fees are charged and collected.

3. Hansen Expired Permit Fee Assessment

Criteria

Fees should be collected in accordance with the City Administrative Code.

303.4 Expiration. *Every permit issued by the Building Official with respect to work governed by the technical codes shall **expire by limitation and become null and void if the building or work authorized by the permit is not commenced within 180 days from the date of the permit**, as documented by an inspection, or if the building or work authorized by the permit is suspended or abandoned at any time after the work is commenced for a period of 180 days, as documented by an inspection...*

*Before the work can be recommenced, a new permit therefor shall first be obtained and **the fee therefor shall be one half the amount required for a new permit** for the work, provided that no changes have been made or will be made in the original plans and specifications for the work, and provided further that the suspension or abandonment has not exceeded one year. In order to **renew action on a permit after expiration, the permittee shall pay a new full permit fee** and shall be subject to all development/impact fees current at the time of the new permit.*

Condition

Hansen data queries of fiscal year permit transactions were completed and analyzed. The analysis showed that permits were not always expired and appropriate fees added in Hansen in accordance with the City Administrative Code:

- 5 permits: one-half permit fees apply and were not added in Hansen.
- 14 permits: one-half permit fees were applied to the permit. Since the period exceeded one year, full permit fees apply and were not added in Hansen.
- 4 permits: full permit fees apply and were not added in Hansen.
- 3 permits: final inspections were indicated as complete in Hansen while initial inspections remained open and one-half permit fees were added to the permit in Hansen.
- 4 permits: inspections were completed and one-half permit fees were added to the permit in Hansen. Since the inspections were completed within 180 days, the fees should not have been added.
- 1 permit: permit was expired in Hansen. Inspections are not scheduled until the additional fees are paid. However, the customer was able to schedule an inspection through the IVR.
- 5 permits: the customers canceled the permits and requested refunds. After the refunds were processed in Hansen and the customers received their refunds, one-half permit fees were added to the permits.

Cause

Building and Safety disabled the expired permit fee function in Hansen due to issues with the function.

Effect

- Expired permit fees are not added in Hansen correctly.
- Potential that fees for expired permits are not collected.
- Increased time required by staff to determine actual status of permits.

Recommendation

1. Building and Safety management should resolve the expired permit fee function deficiencies. Once the issues are resolved, the process should be documented and staff instructed of established procedures.

4. Hansen Refund Processing Inconsistencies

Criteria

A consistent process should be followed for processing refund transactions.

Condition

Detail testing of refund transactions in Hansen showed that the method by which refunds were processed and posted to Oracle was inconsistent, as follows:

- Permits for which refunds were processed had a status of “void” or “not void” in Hansen.
- Additional inconsistencies occurred for the permits that were not voided in Hansen, as follows:
 - Refund amounts were classified as “fees paid” or “fees unpaid”.
 - The next phase was identified as “Final” or “A/P Complete”.
- To request a refund, customers complete a refund request. Building and Safety personnel list on the refund request the general ledger account distribution. However, when verifying the account distribution in Oracle, the refunds were not always distributed to the general ledger accounts listed on the refund request.

Cause

Hansen is not yet fully operational. System issues are still being identified and resolved.

Effect

- Increased staff time to determine actual status of permits.
- Incorrect coding in Oracle.

Recommendation

1. Building and Safety management should work with Finance and Business Service to develop a standard refund process for Hansen refunds. The process should include:
 - Hansen refund processing procedures.
 - Instructions on the appropriate general ledger account distributions.

Once established, the process should be documented and staff instructed on the appropriate procedures.

5. Hansen Functions that Circumvent Oversight

Criteria

The integrated data management software system should require appropriate supervisory oversight when it has been determined that transactions should be voided in the system.

Condition

Hansen functions allow employees to circumvent supervisory oversight in the following situations:

- Employees with a job classification of Office Specialist II can use the delete function on transactions instead of using the void function. The delete function does not require supervisory oversight whereas the void function does.
- 3 transactions: the employee selected “void” as the work type. The work type represents the type of work that is being completed, not the status of the permit in Hansen. Additional research showed that these transactions were not voided in Hansen.
- 7 transactions: the comment field stated the permit had been voided. Additional research showed that these transactions were not voided in Hansen.

Cause

Hansen is not yet fully operational. System issues are still being identified and resolved.

Effect

- Employees have the ability to delete transactions without appropriate supervisory oversight.
- Active permits have the appearance of being voided in Hansen.
- Increased staff time to determine actual status of permits.

Recommendation

1. Building and Safety management should review the current Hansen function issues indicated above relating to circumvented supervisory oversight. Controls should be developed to ensure appropriate supervisory oversight is required when it has been determined that transactions should be voided in Hansen.

6. Performance Reports

Criteria

Performance reports should accurately reflect an organization's operations and performance.

Condition

Building and Safety personnel prepare monthly reports to document performance in terms of revenue generated (Cash Summary Sheet) and building valuation (Summary of Building Permits). The following analyses were completed on these reports:

- The Cash Summary Sheet is an internal report used by Building and Safety management. The fiscal year Cash Summary Sheet revenue figures were compared in total to the audited revenue figures in the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006. For the fiscal year, the revenue reported on the Cash Summary Sheet was \$622,876 less than the revenue reported in the CAFR.
- The June 2006 Summary of Building Permit Report valuation amounts were compared to the supporting documentation used to prepare the report. The following differences were noted:
 - In the Legacy testing, we noted five instances where the valuation amount listed on the green copy of the permit was not included at the correct valuation. The total valuation included for these five permits was \$120,150. The actual valuation associated with these permits was \$233,688 which resulted in an undervaluation of \$113,538.
 - The monthly process to calculate valuations does not take into account any projects that were cancelled for which a refund was processed. Refunds processed in June 2006 included five Legacy permits with a total valuation of

\$1,252,247 and nine Hansen permits with a total valuation of \$159,600. This resulted in an overvaluation of \$1,411,847.

Cause

- Inaccurate data was used in the preparation of reports.
- Errors occurred when manually adding valuations.

Effect

Inaccurate performance measures for management decisions.

Recommendation

1. Building and Safety management should develop and document more accurate methods for calculating monthly performance reports.

7. Computer Access

Criteria

Information Security Procedure (IT134a)

Department Representatives/Human Resources

It is also essential for access control, data integrity and security that IT be informed whenever any user changes Departments, Division or Sections, transfers into a position where previous accesses are no longer necessary, or departs the City for any reason. Each Department must complete and submit an "IT Request Form" as far in advance as is feasible to request any changes, additions or removal of information resources or access for any user.

Condition

A review of Legacy and Hansen computer security permission access showed the following individuals with inappropriate system access:

- Former employees.
- Current Building and Safety employees without the need for access in their current job assignments.
- Current City employees not assigned to Building without the need for access in their current job assignments.

In addition, the review of Legacy computer access showed two additional inappropriate system access categories:

- Generic security permission access ID's were identified (e.g. Front Counter, Team, Express)
- Individuals with security permission access that could not be identified as either current or former City employees when researched in Oracle. While these individuals had Legacy access, Information Technology personnel verified that they do not have current mainframe access.

Cause

An on-going monitoring program of computer system access is not in place.

Effect

Potential for unauthorized access to Legacy and Hansen systems.

Recommendation

1. Building and Safety management should develop, document, and implement a process to ensure that computer system access is changed when an employee changes job responsibilities, takes a position in another department, or leaves employment with the City. This process should include a periodic review of computer access matrices to verify that all changes have been implemented.

8. Computer Lockout Features

Criteria

Information Security Procedure (IT134a)

Data Owner

The data owner is responsible for ensuring that only those individuals who have an operational need can access data. Each data owner must work closely with IT to manage systems and applications. The data owner will be responsible for the following:

Never leave workstations unattended without logging out or invoking an available lockout mechanism. This could include screen savers, passwords, NT locking features or physical locking of an office, if preferred. Lockout features should not be bypassed or made inactive for any reason. (Item j)

Condition

Discussions with various Building and Safety employees during audit fieldwork showed that not all employees log out or invoke an available lockout mechanism for their computer when they leave their workstations unattended.

Cause

- Department personnel are not aware of City Information Technology policy.
- The department does not have a standard department policy relating to computer access.

Effect

- Noncompliance with City Information Technology guidelines.
- Potential for unauthorized access of the Legacy and Hansen systems.

Recommendation

1. Building and Safety management should create, document, and implement a computer lockout procedure that is in compliance with the City's Information Security Procedure and notify all employees of the procedure.

Management Responses

1. Legacy System Control Deficiencies

Recommendation: 1. Building and Safety management should continue with their monitoring efforts until the Legacy System has been retired.

Management Action Plan:

No design changes – transitioning to Hansen

Estimated Date of Completion:

November 2007

2. Hansen Fee Collections

Recommendation: 1. Building and Safety management should develop controls in Hansen to address the fee collection deficiencies and instruct staff of established procedures to ensure that correct fees are charged and collected.

Management Action Plan:

- Examples of permits where permit fees generated incorrectly were tested in Development
- The following permits were recreated in DEV (Development database of Hansen) for testing of fees with the following results:
 - #66244 Production – Permit fee \$61.00 / #78732 Development – Permit fee \$105 (*fees generated correctly*)
 - #50313 Production – Permit fee \$ 65.00/ #78733 Development – Permit fee \$105 (*fees generated correctly*)
 - #59770 Pool, Prod – Permit fee \$416.00/ #78734 Development – Permit fee same (*incorrect, should be \$433 based on a \$67,800.00 valuation*). *This has gone to Steve Lee for correction; we believe a couple of valuation ranges in Hansen need to be adjusted for correct permit fees.*
- Permit completed & finalized without payment of electrical portion:
 - #46226 OTC-Agency Patio Cover, Production – scheduled & passed electrical inspection but no electrical permit was purchased /#78735 Development – same problem – IVR allowed us to schedule a 240 when no

electrical on permit. Steve has already requested a fix on this issue from the IVR.

Estimated Date of Completion:

June 29th (has been completed)

3. Hansen Expired Permit Fee Assessment

Recommendation: 1. Building and Safety management should resolve the expired permit fee function deficiencies. Once the issues are resolved, the process should be documented and staff instructed of established procedures.

Management Action Plan:

- Problems with incorrect expiration of permits: This trigger has been disabled and is currently being re-designed by the Hansen Project Team
- As an interim solution, a new policy has been put in place that all permit renewals must go through a Supervisor for approval and pricing.

Estimated Date of Completion:

March 2008

4. Hansen Refund Processing Inconsistencies

Recommendation: 1. Building and Safety management should work with Finance and Business Service to develop a standard refund process for Hansen refunds. The process should include:

- Hansen refund processing procedures.
- Instructions on the appropriate general ledger account distributions.

Once established, the process should be documented and staff instructed on the appropriate procedures.

Management Action Plan:

- Mike & Yolanda met with Accounting (Gayle Lloyd-Leakos and Debbie Philips) to discuss the inconsistencies in the accounting numbers and process. We agreed on a new process and a new form that will only reference the accounting code (1 number) used by finance.
- The new form and process will be in place by July 15th.

Estimated Date of Completion:

July 15, 2007

5. Hansen Functions that Circumvent Oversight

Recommendation: 1. Building and Safety management should review the current Hansen function issues indicated above relating to circumvented supervisory oversight. Controls should be developed to ensure appropriate supervisory oversight is required when it has been determined that transactions should be voided in Hansen.

Management Action Plan:

- This has been addressed in Hansen already. All the groups were re-accessed and given access based on their current job roles.
- Only Supervisors can adjust fees or remove fees.

Estimated Date of Completion:

Completed

6. Performance Reports

Recommendation: 1. Building and Safety management should develop and document more accurate methods for calculating monthly performance reports.

Management Action Plan:

- Data entry error and variance in reporting still to be resolved.
- Valuation report has some data entry problems which can be addressed once we are fully on Hansen by producing an automated report. A new valuation report will be available by the **end of October '07**.
- A new cashiering system will be in place with Hansen by the end of **November '07**.

A new revenue report will be generated from Hansen in **December '07** with a few additions from Legacy/Mainframe such as Sign permits, Express Inspections & Refees on existing Legacy permits. The new report will be cross-checked for accuracy against the existing Oracle reports in September and October.

Estimated Date of Completion:

December 2007

7. Computer Access

Recommendation: 1. Building and Safety management should develop, document, and implement a process to ensure that computer system access is changed when an employee changes job responsibilities, takes a position in another department, or leaves employment with the City. This process should include a periodic review of computer access matrices to verify that all changes have been implemented.

Management Action Plan:

- Reviewed IT regulations:
 - IT has new policy in place to review users on a regular schedule and cross-check against existing employees.
 - B&S to also follow-up with IT when members change or job responsibilities change.

Estimated Date of Completion:

Completed

8. Computer Lockout Features

Recommendation: 1. Building and Safety management should create, document, and implement a computer lockout procedure that is in compliance with the City's Information Security Procedure and notify all employees of the procedure.

Management Action Plan:

- Reviewed IT regulations and we are awaiting a response from IT on length of time requirement: New auto-lockout/logging off to be put into place with all staff by July 15th.

Estimated Date of Completion:

July 15, 2007